

**Economics 181, Fall 2005**  
**International Trade**

**Instructor: Professor Ann Harrison**  
**GSI: Emma Aisbett, Ricardo Cavazos, Robert Santillano**

Tuesday and Thursday, 11:00 to 12:30 pm, 101 Morgan

**Course Website address: Go to <http://are.berkeley.edu/~harrison> and click on econ181**

This is a four unit course with three hours of lecture and one hour of discussion per week. You need to sign up in one section during the first week of class to remain in the class. Attendance to one discussion section is mandatory. Sections are scheduled as follows;

Section 101, Monday, 2-3, 47 Evans  
Section 102, Monday 3-4, 237 Cory  
Section 103, Wednesday, 4-5, 5 Evans  
Section 104, Wednesday, 5-6, 81 Evans  
Section 105, Friday, 1-2, 87 Evans

### **Adding the Course**

If you are not in the course but wish to add, you should consult the Economics Department. Neither the instructor nor the GSIs have the power to get you registered in the class.

### **Textbook and reader**

Paul Krugman and Maurice Obstfeld (K & O), *International Economics: Theory and Policy*, Addison-Wesley, either the Sixth Edition (2003) or the Seventh Edition (2005). If you purchase the new edition, you will also have access to an online homework and tutorial system called MyEconLab, that also includes practice tests and problems. There is also an Economics 181 reader. Although both the textbook and reader are required, I also encourage you to purchase the study guide, which is only recommended. The Study Guide, written by Linda Goldberg and Michael Klein, contains sample problems for each chapter and is quite useful as a guide for exams. Although the study guide was written to accompany an earlier version of K & O, it is still very useful and up-to-date. There are multiple copies of the texts and the study guide available on reserve in Moffitt Library.

### **Course Description**

This course covers the microeconomics of international trade, and related issues of US trade policy, developing country trade policies, foreign direct investment and multinational corporations. We begin with a brief introduction and then develop a theoretical framework to help us understand (1) why countries trade with each other and what determines trade patterns (2) whether trade is beneficial for a country and (3) how trade affects the distribution of income within a country. We then analyze the effects of commercial policy (ie tariffs) on trade and economic welfare. We conclude with a discussion of recent issues, including the World Trade Organization (WTO), regional trade agreements such as NAFTA, the impact of trade policy on growth, and other current concerns. Since I feel that there is not enough data analysis conducted in most classes, I will supplement the readings and the text with handouts whenever possible. I will expect you to become proficient in reading tables, graphs, and figures. An understanding of basic regression analysis, although helpful, is not required.

### **Prerequisites**

This course uses microeconomic tools extensively, and therefore requires a solid understanding of price theory. Economics 100 A & B, or Economics 101 A & B, or PENR100, are the prerequisites.

## Requirements

1. **Assignments** There will be five assignments during the semester, but only your four best assignments will count for your final grade. Assignments are due at the beginning of class on the following dates:

Thursday, September 15, Assignment #1  
Thursday, September 29, Assignment #2  
Tuesday, November 1, Assignment #3  
Thursday, November 17, Assignment #4  
Tuesday, December 6, Assignment #5

All homework assignments will be graded and recorded by your TA. Late homeworks lose 1 point (out of 4) per day. Note that assignments are late whenever submitted later than 11:15 on the due date. Late homework must be handed directly to your TA or to Professor Harrison. **DO NOT** submit homework in the form of e-mail attachments or fax your homework to Professor Harrison!

2. **Examinations**

There will be a mid-term and a final examination on the following dates:

Mid-term examination: Tuesday, October 18, 12:30-2:00  
Final Examination: Exam Group 9

Policy on missed midterm or final exam:

There is no scheduled make-up midterm or final exam. Students who miss an exam for any reason must communicate with Professor Harrison by e-mail or phone by 6:00 pm on the day of the exam (email: [harrison@are.berkeley.edu](mailto:harrison@are.berkeley.edu); telephone 643-9676). Students need to have a written certificate from a medical or legal authority justifying the reason for having missed the examination. Do not take this course if you cannot make the exam date!

For a missed mid-term, the student will take the mid-term as an open book take-home examination. If the answers are of A quality, the final examination will count for 88 % of the grade instead of 50 %. Failure of the above will result in a 0 score for the examination.

For a missed final exam, an “incomplete” grade will be given for the class. The student will have to take the final exam at another session. Econ 181 classes are regularly offered in summer and fall sessions every year. Please **DO NOT** take the course if you cannot attend the final; I do not give make-up exams for either the midterm or the final.

Fire Alarm Policy:

A truly annoying bad habit at UCB is the pulling of fire alarms by ill-prepared and selfish students. If the alarm is pulled during an exam, the examination will not be rescheduled. The class will move outside and finish the exam in the allotted time.

3. **Grades**

The grade for the course will be based on the following components:

Exercises: four times 3 percent = 12 percent

Mid-term: 38 percent

Final: 50 percent

**Office hours and e-mail addresses: (you are welcome to contact either TA if you have questions)**

Ann Harrison: 329 Giannini Hall, Tuesday 1:00-2:30; [harrison@are.berkeley.edu](mailto:harrison@are.berkeley.edu)  
Emma Aisbett: [aisbett@are.berkeley.edu](mailto:aisbett@are.berkeley.edu), Thursday 10-11, 306 Giannini Hall  
Ricardo Cavazos: [cavazos@are.berkeley.edu](mailto:cavazos@are.berkeley.edu), Tues 4-5, Wed 6-7, 310 Giannini Hall  
Robert Santillano: [rsantillano@berkeley.edu](mailto:rsantillano@berkeley.edu), Mon 6-7, Wed 10-11, 325 Giannini Hall

## Economics 181, Spring 2005

Class Number	Topic	Assigned Readings
<b>Class #1</b> <b>(8/30)</b>	Overview. Introduction to Ricardian Model	OLD K&O: Chapter 1, Chapter 2 10-16 NEW K&O: Pages 1-10, 17-22, 24-29 Reader, pages 1-4
<b>Class #2</b> <b>(9/1)</b>	International Technology Differences And Trade—Ricardian Model	OLD K&O: Chapter 2, 16-23 NEW K&O: Chapter 3, pages 29-36 Practice problem 1 in OLD K&O Ch 2 or NEW K&O, Ch 3
<b>Class #3</b> <b>(9/6)</b>	Ricardian model, continued	OLD K&O: Chapter 2, 23-34 NEW K&O: Chapter 3, 36-48 Problems 2,3,4 in OLD K&O Chapter 2, or NEW K&O Ch 3 Reader, page 5
<b>Class #4</b> <b>(9/8)</b>	Factor Endowment Differences and Trade: Specific Factors Model I	OLD K&O: Chapter 3, pp. 38-46, . Practice problem 2 in OLD K&O, Chapter 3 Reader (if you have NEW K&O): pp 6-20
<b>Class #5</b> <b>(9/13)</b>	Factor Endowment Differences and Trade: Specific Factors Model II	OLD K&O: Chapter 3, pp 46-54. Practice problems 3 & 4 in OLD K&O, Chapter 3 Reader, pages 21-22
<b>Class #6</b> <b>(9/15)</b>	Factor Endowment Differences: Specific Factors Model III	OLD K&O: Chapter 3, pp. 54-60 +Appendix Reader (if you have NEW K&O): pp 6-20
<b>Class #7</b> <b>(9/20)</b>	Factor Endowments Differences and Trade: Heckscher-Ohlin Model Part I	OLD K&O: Chapter 4, 67-75, plus appendix NEW K&O: Chapter 4, 50-61 plus appendix
<b>Class #8</b> <b>(9/22)</b>	Heckscher-Ohlin Model, Part II	OLD K&O: Chapter 4, 75-86. NEW K&O: Chapter 4, 61-77
<b>Class #9</b> <b>(9/27)</b>	The Standard Trade Model	OLD K&O: Chapter 5 NEW K&O: Chapter 5 Reader, pages 23-43
<b>Class #10</b> <b>(9/29)</b>	The Gravity Model	OLD K & O, Reader, pp 44-50 NEW K&O: pages 11-17
<b>Class #11</b> <b>(10/4)</b>	Trade, Wages, and Income Inequality	Reader, pages 55-72
<b>Class #12</b> <b>(10/6)</b>	Globalization and Poverty	TBA
<b>Class #13</b> <b>(10/11)</b>	Foreign Investment I	Reader, pages 73-112
<b>Class #14</b> <b>(10/13)</b>	Review	
<b>Class #15</b> <b>(10/18)</b>	<b>MIDTERM</b>	

<b>Class Number</b>	<b>Topic</b>	<b>Assigned Readings</b>
<b>Class #16 (10/20)</b>	Foreign Direct Investment II	OLD K&O:Chapter 7, pp. 169-178 NEW K&O: Chapter 7, pp 157-165
<b>Class #17 (10/25)</b>	Trade in Industries with Imperfect Competition and Increasing Returns to Scale	OLD K&O:Chapter 6, 120-131 NEW K&O: Chapter 6, 110-121
<b>Class #18 (10/27)</b>	“ Continued	OLD K&O:Chapter 6, 132-142, 147-155 NEW K&O: Chapter 6, 121-131, 136-144
<b>Class #19 (11/1)</b>	Immigration	OLD K&O:Chapter 7, pp. 160-166 NEW K&O: Chapter 7, 148-154
<b>Class #20 (11/3)</b>	Tariffs	OLD K&O:Chapter 8, pp. 186-196 NEW K&O: Chapter 8, 176-186 NEW or OLD K&O:Appendix to chapter 9 Reader, pages 113-124
<b>Class #21 (11/8)</b>	Other Trade Policy Instruments	OLD K&O:Chapter 8, pp. 196 to the end NEW K&O: Chapter 8, 186 to end
<b>Class #22 (11/10)</b>	Dumping and International Price Discrimination	OLD K&O:Chapter 6, pp. 142-147 NEW K&O: Chapter 6, 131-136
<b>Class #23 (11/15)</b>	Trade agreements: Regionalism versus Multilateralism	OLD or NEW K&O: Chapter 9 Reader, pages 125-147
<b>Class #24 (11/17)</b>	Regional Trade Agreements, Continued The Global Framework for Trade (WTO)	OLD or NEW K&O: Chapter 9 Reader, pages 148-195
<b>Class #25 (11/22)</b>	Does Trade Lead to Growth? Orthodoxy, Heterodoxy, and Developing Country Approaches	OLD or NEW K&O: Chapter 10 Reader, pages 196-244
<b>Class #26 (11/29)</b>	Child Labor and Labor Standards	Reader, pages 245-268
<b>Class #27 (12/1)</b>	Trade Policy Debates in Developed Countries: Strategic Trade Policy, Fear of Low Wage Imports, Outsourcing	OLD K&O: Chapter 11 NEW K&O: Chapter 11 Reader, pages 269-end
<b>Class #28 (12/6)</b>	The Anti-Sweatshop Movement: A Case Study on Indonesia	TBA
<b>Class #29 (12/8)</b>	Final Review	